

## Method of Distribution for Hurricane Ike Round 2.2 Housing Disaster Recovery Funds

---

### *Background*

The City of Houston (City) was previously awarded Community Development Block Grant (CDBG) program funds through the State of Texas, made available under the Consolidated Security, Disaster Assistance, and Continuing Appropriations Act, (Public Law 110-329). The purpose of the funding was to address the impacts of Hurricane Ike on the City of Houston and its low-income citizens. The City, through its Housing and Community Development Department (HCDD) received \$87,256,565 for the following housing activities for the first round of funding:

**Table 1. Hurricane Ike Round 1 Disaster Recovery Budget & Projected Outcomes**

| <b>Activity</b>  | <b>Amount</b>       | <b>Projected Households Assisted</b> |
|--|---------------------|--------------------------------------|
| Down Payment Assistance                                    | \$10,108,500        | 283                                  |
| Homeowner Rehabilitation, Reconstruction, New Construction | \$10,924,415        | 242                                  |
| Multifamily Rental Rehabilitation and Reconstruction       | \$60,072,964        | 2,552                                |
| Project Delivery   | \$1,787,858         | N/A                                  |
| Administration   | \$4,362,828         | N/A                                  |
| <b>Total</b>   | <b>\$87,256,565</b> | <b>3,077</b>                         |

On November 19, 2010, the City of Houston submitted an application for \$495,000 in planning funds to support the costs of community outreach and collaboration for distributing funds in the second round of Hurricane Ike Disaster funding. The application was conditionally awarded to the City on December 17, 2010 by the Governing Board of the Texas Department of Housing & Community Affairs, however, this application for funding was subsequently denied along with other planning grants in the region. As no funds were distributed to the City for Round 2.1 in Disaster Recovery funds, the City will be submitting an application for Hurricane Ike Round 2.2 Housing Disaster Recovery funds to the State of Texas for the full amount of funding reserved to the City of Houston in the following categories:

**Table 2. Estimated Hurricane Ike Round 2.2 Disaster Recovery Grant Amounts**

| <b>Activity</b>              | <b>Amount</b>        |
|------------------------------|----------------------|
| General Housing              | \$107,348,346        |
| Single-Family Rental Housing | \$7,270,468          |
| Other Rental Housing         | \$7,304,160          |
| Subsidized Housing           | \$29,490,046         |
| <b>Total</b>                 | <b>\$151,413,020</b> |

Note: Funding amounts were approved by the H-GAC Governing Board on November 15, 2011.

### *Conciliation Agreement Priority Factors*

As defined by the Conciliation Agreement between the State of Texas and the U.S. Department of Housing and Urban Development, the following factors are required to be considered:

- Recipients must consider prioritization at various income levels, persons with special needs, and relocation programs.
- An evaluation to ensure the housing needs are assisted with housing in no less than the proportion to their relative percentages of the overall populations, which suffered housing damage within the community.

### *Administrative Costs*

One important challenge the City will need to address, in tandem with the application submitted to the State of Texas, is establishing an additional contribution of local dollars to address a significant gap in administrative dollars, which will be much less during this second round of funding. During the Ike Round 1 Disaster Recovery contract, the State of Texas allowed the City of Houston to retain 5% of the total grant amount to cover Administrative costs for the Round 2 Disaster Recovery contract, administrative costs will be capped at 2%. In order to effectively administer the programs and cover the administrative costs, the City will need to allocate additional funding.

It is important to note, Disaster Recovery funds are sent by HUD through a special allocation of Community Development Block Grant (CDBG) funds. The CDBG program's regulatory requirements typically cap administrative costs at 20% of the total grant amount—18% more than what is currently allowed by the State program. This higher cap allows for programs to dedicate staff with specialized skills, such as counselors and case workers, to help beneficiaries meet requirements of eligibility and to address the challenges of their needing assistance. As a part of the program requirements, already stipulated by the program guidelines, Ike Disaster Round 2 will require an increased number of certified counselors, case workers, and staff in order to assist beneficiaries.

The State of Texas is allowing for a specialized category, known as *Project Delivery*, to help pay some of the administrative burden. Project Delivery costs are costs associated with the delivery of a specific project (identified by address) and may be used to cover costs such as building inspections and legal processing costs. However, Project Delivery may not be used for general overhead costs (such as rent, utilities, or supplies) and cannot cover salaries of general processing costs (such as determining whether and individual is eligible to participate). Ike Disaster Recovery Round 2 guidelines allow for a 10% set-aside for Project Delivery costs. The City will request to set-aside the full amount of Project Delivery funding, acknowledging that funding may only be used in association with a project and may be moved toward unit production, if underutilized, during the contract period.

In order to meet the actual administrative cost burden of the Ike Round 2 Disaster Recovery grant, the Housing and Community Development Department (HCDD) shall request to set-aside an amount equal to 8% of the estimated grant amount from the Tax Increment Reinvestment Zone (TIRZ) Affordable

Housing Set-Aside fund. While this amount may be prorated over the contract period, a significant portion is expected to be utilized during the first year of the contract, to cover unfunded costs of processing eligible applicants and additional start-up costs including procurement, legal, and other program-related costs not eligible for reimbursement under project delivery.

**Table 3. Administration and Project Delivery Costs of Ike Round 2 Disaster Recovery**

| <b>Category</b>  | <b>Amount</b>       |
|--|---------------------|
| General Administration Costs (maximum allowable is 2% of grant)                                    | \$3,028,260         |
| City of Houston Contribution from TIRZ Affordable Housing Set-Aside (8% of grant amount)*          | \$12,113,042        |
| Project Delivery (maximum allowable is 10% of grant)   | \$15,141,302        |
| <b>Total Administration, City Contribution, and Project Delivery Available for Contract Period</b> | <b>\$30,282,604</b> |

\*Based on an estimated funding amount of \$151,413,020, to be appropriated over three years, subject to City Council approval.

*Distribution of Funding by Activity—Special Grant Set-Aside Activities*

There were several funding amounts presented in Table 2. which represent special set-aside fund activities, as part of the Hurricane Ike disaster recovery effort. These amounts were established through a method of distribution ratified by the Board of the Houston-Galveston Area Council (H-GAC) on November 15, 2011. These amounts have been presented in the following table:

**Table 4. Special Grant Set-Aside Activities for Ike Disaster Recovery Round 2**

| <b>Activity</b>   | <b>Amount</b>       |
|---|---------------------|
| Single-Family Rental Housing                                    | \$7,270,468         |
| Other Rental Housing (including multifamily)                    | \$7,304,160         |
| Subsidized Housing  | \$29,490,046        |
| - Administration and Project Delivery Costs (12% cap)           | (\$5,287,761)       |
| <b>Balance Available for Special Grant Set-Aside Activities</b> | <b>\$38,776,913</b> |

As discussed in the State of Texas Analysis of Impediments, U.S. Census data demonstrates significant overcrowding in the City of Houston for large, low-income families. Economic pressures compound the general lack of affordable housing for this sector of the market and new families have limited choice. Additionally, there are not enough accessible units to accommodate Persons with Disabilities, especially those families with special needs members.

The Department shall propose to combine the *Other Rental Housing* and *Single Family Rental* set-aside funds to dedicate \$14,574,628 dollars to pilot a robust single-family rental affordable housing program in the City of Houston. It is important to note, the Guidelines established by the State of Texas Disaster Recovery program are limited regarding the provision of single-family rental housing. HCDD shall collaborate with stakeholders on proposing alternative models of single-family rental that will address the needs of large families and those with a family member having a disability.

In addition to building the portfolio of quality single-family housing, HCDD would like to pilot “shelter in place” design and construction, to allow for families to stay in-place and weather the storm during a future natural and disastrous event.

As the final guidelines of the City’s Single-Family Rental Program have not been determined, it is difficult to provide an exact target number of households that will be assisted with this funding. Unfortunately the current State cap is \$70,000 per three-bedroom single-family unit, which the City considers to be insufficient, given the realities of the marketplace, construction costs and other development factors. The following estimate is being provided as a baseline, but it will need to be adjusted after the final design guidelines are adopted. Using an average of \$70,000 per unit for reconstruction, or rehabilitation, the Department estimates that 183 Houston families may be assisted with a Single-Family Rental Program.

**Table 5. Single-Family Rental Program for Ike Disaster Recovery Round 2**

| <b>Category</b>   | <b>Amount</b> |
|---|---------------|
| Single-Family Rental Program                                    | \$14,574,628  |
| - Administration and Project Delivery Costs                     | \$1,748,956   |
| Balance Available for Single-Family Rental Set-Aside Activities | \$12,825,672  |

**\$12,825,672 (Balance Available) ÷ \$70,000 (per unit cap) = 183 Estimated Households Assisted**

Additionally the Housing and Community Development Department and the Houston Housing Authority (HHA) are committed to collaborate on the design of the *Subsidized Housing* program. The Department will be responsible for reviewing and recommending proposals in partnership with Houston Housing Authority, but the ownership and the responsibility of the property could be conveyed to various entities including the Houston Housing Authority, an HHA affiliated entity, or other entity to benefit and address the unmet need of public housing in Houston.

The Subsidized Housing set-aside is \$29,490,046, however, two percent (2%) of the funds can be withheld for administration and approximately ten percent (10%) shall be reserved for project delivery costs. The balance available (\$25,951,240) will allow for rental rehabilitation, reconstruction, or new construction activities. These activities may include those costs that address clearance, demolition, and removal, in addition to the rehabilitation or construction costs. Using an estimate of \$110,000 per unit for public housing construction, the Department estimates 236 families may be assisted with the Subsidized Housing programs.

**\$25,951,240 (Balance Available) ÷ \$110,000 (estimated per unit) = 236 Estimated Housing Units**

*Distribution of Funding by Activity—General Housing Set Aside*

The following table shows the balance of funds available for General Housing Activities after decreasing the funding amounts set-aside for general administration, project delivery, and special grant set-aside activities:



**Table 6. Funding Available for General Housing Activities**

|   |                      |
|---|----------------------|
| <b>Total Estimated Grant Funding</b>                    | <b>\$151,413,020</b> |
| - General Administration (excluding COH contribution)   | (\$3,028,260)        |
| - Project Delivery                                      | (\$15,141,302)       |
| - Special Grant Set-Aside Activities                    | (\$38,776,913)       |
| <b>Balance Available for General Housing Activities</b> | <b>\$94,466,544</b>  |

The Harris County Hurricane Ike Residential Damage Assessment indicated there was limited destructive damage; most was categorized as “major” or “minor” by the condition assessment of the structure. Unfortunately, damage assessment data was not available by household income categories, so it is difficult to assess the “low-income” status of the owner/occupant of the damaged structures.

The State of Texas *Needs Assessment* tried to address this gap in data by providing requests from FEMA as a proxy of “low-income” status. Unfortunately, approximately 78% of the calls were from households classified higher than “moderate” income and the information does not indicate the type of assistance requested (e.g. home repair or social service).

In order to assess outstanding need, the City identified data that assists in segregating income by Area Median Income (AMI) Census Bureau Categories:

**Table 7. Total Households in the City of Houston by Income Category**

|                         | <b>Households</b> | <b>0-30% AMI</b> | <b>31-50% AMI</b> | <b>51-65% AMI</b> | <b>66-80% AMI</b> | <b>81-100% AMI</b> |
|-------------------------|-------------------|------------------|-------------------|-------------------|-------------------|--------------------|
| <b>Total Households</b> | <b>779,738</b>    | <b>226,223</b>   | <b>194,292</b>    | <b>126,172</b>    | <b>113,368</b>    | <b>119,683</b>     |

Source: American Community Survey 2005-2009, 5-year Estimates for Census Tracts, U.S. Census Bureau

The next table utilizes the same dataset to determine the percentage of total households according to their income. The percentages in Table 8. shall be used to distribute activity funding across income categories.

**Table 8. Percentage Categories of Total Households in the City of Houston by Income**

| <b>Category</b>                           | <b>0-30% AMI</b> | <b>31-50% AMI</b> | <b>51-65% AMI</b> | <b>66-80% AMI</b> | <b>81-100% AMI</b> | <b>Total</b> |
|---|------------------|-------------------|-------------------|-------------------|--------------------|--------------|
| Households                                | 226,223          | 194,292           | 126,172           | 113,368           | 119,683            | 779,738      |
| Percentage Categories of Total Households | 29%              | 25%               | 16%               | 15%               | 15%                | 100%         |

Source: American Community Survey 2005-2009, 5-year Estimates for Census Tracts, U.S. Census Bureau

Based upon public input, the City has decided to allocate 56% of funding toward single-family activities, and 44% of funding toward multifamily activities. Table 9. demonstrates the percentage distribution between Single-Family Activities and Multifamily Activities. These amounts include activity, administrative and project delivery funding.

**Table 9. Distribution of General Housing Activities Funding**

| Category   | % of Funding   | Amount               |
|--|----------------|----------------------|
| Single-Family Activities for Round 2                                 | 56.00%         | \$60,115,074         |
| Multifamily Activities for Round 2                                   | 44.00%         | \$47,233,272         |
| <b>General Housing Activities Funding Available for Distribution</b> | <b>100.00%</b> | <b>\$107,348,346</b> |

Table 10 and Table 11 delineate the Administration and Project Delivery funding for each activity type as follows:

**Table 10. Single-Family Administration and Project Delivery Funding**

| Category   | % of Funding  | Amount             |
|--|---------------|--------------------|
| Single-Family Administration for Round 2                                   | 2.00%         | \$1,202,301        |
| Single-Family Project Delivery for Round 2                                 | 10.00%        | \$6,011,507        |
| <b>Total Single-Family Administration and Project Delivery for Round 2</b> | <b>12.00%</b> | <b>\$7,213,808</b> |

**Table 11. Multifamily Administration and Project Delivery Funding**

| Category  | % of Funding  | Amount             |
|---|---------------|--------------------|
| Multifamily Administration for Round 2                                    | 2.00%         | \$944,665          |
| Multifamily Project Delivery for Round 2                                  | 10.00%        | \$4,723,327        |
| <b>Total Multi-Family Administration and Project Delivery for Round 2</b> | <b>12.00%</b> | <b>\$5,667,992</b> |

Table 12. demonstrates the balance of funding available for construction costs (or hard costs) after reducing the funding amount by the Administration and Project Delivery amounts in Table 10 & 11.

**Table 12. Balance of General Housing Activities Funding Available for Construction**

| Category                                       | Amount              |
|--|---------------------|
| Single-Family Construction Funding for Round 2 | \$52,901,266        |
| Multifamily Construction Funding for Round 2   | \$41,565,280        |
| <b>Total Construction Funding</b>              | <b>\$94,466,546</b> |

### Single-Family Housing Activities

After deducting administration and project delivery costs, the balance available for single-family activities is \$52,901,266 (See Tab III-Page 19). This funding will need to be applied toward rehabilitation or reconstruction. Costs may involve the clearance, demolition, and disposal of construction waste. For homes in the floodplain, costs may include elevation of homes, relocation, or buyout of property. Additionally, funds may be used to individually mitigate units to reduce risk from future storms. Homebuyer assistance program shall be made available under the single-family activities to assist households to move at their request.

It is important to note, State Disaster Recovery guidelines require that the homeowner be counseled and provided the opportunity to choose their type of assistance (e.g. home reconstruction or buyout). As required by the State, HCDD will be providing additional guidelines regarding the administration of the program for approval.

There is more unmet need in the identified communities than funding available to provide assistance. The City shall use outreach to contact homeowners regarding their eligibility to apply for the Ike Disaster Recovery Round 2.2 funding. This outreach may include, but is not limited to, mail, phone calls, or community meetings. Priority assistance will be provided to households with a disabled family member, elderly households, and those households categorized as “very low-income” (30% or below Area Median Income). It is currently estimated, that most of the beneficiaries will be from minority concentrated or poverty concentrated areas and the Department will prioritize those households classified as “very-low income”. HCDD proposes to set-aside seventy-five percent (75%) of this funding to assist “very-low income” homeowners (30% or below Area Median Income), and set-aside twenty-five percent (25%) to assist “low income” homeowners (50% or below Area Median Income) in a “Single-Family Activities” Category to include all eligible activities.

Unfortunately, homeowner information is not available at the address level to provide information regarding the amount of damage and type of assistance that will be requested. One important requirement, which distinguishes this application from other types of grants, is the requirement to focus on providing assistance based on the choice of the homeowner. As required by the State guidelines, each homeowner shall be counseled and shall elect what type of assistance they prefer—whether to have their home rehabilitated or reconstructed or whether to move to another neighborhood. Allowing for the homeowner to choose their assistance coupled with the absence of data regarding types of specific requests are anticipated, make it difficult to project exactly how many households will be assisted through each activity (e.g. rehabilitation, reconstruction, or homebuyer assistance).

However, based on the average costs of reconstruction (including considerations for elevation) and mitigation and relocations costs, the City estimates the *average* amount of assistance at about \$125,000 per household.

**\$52,901,266 (Balance Available) ÷ \$125,000 (estimated per unit) = 423 Estimated Households Assisted**

It is important to note, assistance in the Single-Family depends on the choice of the homeowner— whether to repair/reconstruct in place or choose to buy and move out of their neighborhood. Therefore, staff is estimating that about 75% of households will choose to stay and about 25% may choose to leave their house and lot in exchange for an opportunity elsewhere in the HGAC region. However these funds may need to be reapportioned at a future date, based on actual demand for assistance.

### Multifamily Activities

After decreasing administrative and project delivery costs, the balance of funds available for multifamily activities is \$41,565,280 (See Tab III-Page 19). This funding will need to be applied toward the rehabilitation or reconstruction and/or new construction of affordable multifamily rental housing. Costs may involve the clearance, demolition, removal, new/reconstruction, and rehabilitation of multifamily rental projects. HCDD will utilize a Request for Proposal process to identify those projects that provide the most benefit to the Houston community.

As previously discussed, within HCDD's *2010 Needs Assessment* and the State of Texas *Analysis of Impediments to Fair Housing Choice*, there is continued, unmet and outstanding need for Special Needs housing. This includes the construction of units to assist persons with disabilities, persons with HIV/AIDS, elderly, and homeless housing. Additionally, there is a critical need for units which address the overcrowding of families. While "large families" have not been defined as a "special population" by HUD, demographic and market indicators, demonstrate an increase in low-income families in Houston, shows the propensity of this population to be more likely to rent than own, and states the availability of stock is limited, especially for larger families.

A second priority for the City is the lack of available units to specifically address the homeless population. According to the gap analysis provided by the Coalition for the Homeless/Houston, Harris County (Coalition), the hurricane was one of the top ten triggers for homelessness in their service region. For this population, there are not only barriers to housing, but barriers to emergency shelter. Planning for long-term housing placement of the homeless population is a key component toward mitigating against impacts of future natural disaster. Based on new data, the Coalition estimates 9,440 new units of permanent supportive housing are needed and estimates that 2,050 of those units need to address the needs of families with children.

Unlike the single-family homeowner activities, which will have focused target areas in the City of Houston to prioritize beneficiaries, the multifamily activities do not have pre-determined geographic targeted areas. The City is working on the development of multifamily activity guidelines, which shall be submitted for approval by the State and will utilize a Request for Proposal process to solicit applications, which include amenities to address special needs and homeless housing.

**\$41,565,280(Balance Available) ÷ \$125,000 (estimated per unit) = 333 Estimated Households Assisted**